

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
OFFICE OF COMMUNITY DEVELOPMENT

**REQUIRED DOCUMENTS – COMPREHENSIVE
HOMEOWNER REHABILITATION**

The following list of documents represents file documentation MSHDA expects all grantees to maintain in their local project files. The list of required documents is generally organized in chronological order and broken into key phases in the lifecycle of a specific project.

Several documents may be required in any given file but will not be applicable to every project; these documents are indicated by a parenthetical “if applicable” within the checklist below. For example, a SHPO review is unnecessary for a home less than 50 years old.

Additionally, documents listed in *italics* are currently not “required” but are recommended by MSHDA and often represent best practices in local programs. While we feel these documents are important enough to specifically list within this checklist, they are not fundamentally required. In most cases, commentary has been provided explaining why and under what circumstances such documents may prove useful.

STEP 1: Applicant Eligibility. The first step is to identify the participants in the program and confirm their eligibility. Please Note: Income eligibility is not the same thing as program eligibility; not everyone who is income eligible is qualified to participate in the program.

1. Application
2. Income Verification: **IRS 1040 method required after 5/1/2009. Package to include:**
 - a. **Annual Household Income Worksheet**
 - b. Third Party Verification Monitoring
 - c. Family Composition
 - d. Authorization for Release of Information and Privacy Act Notice
 - e. Declaration of Section 214 Status
 - f. Checklist(s) of income and assets
 - g. Verifications of income, assets, assistance, etc.
3. *Federal and State Tax Returns: Most lenders will require tax returns as part of their application package. For grantees who function as PIP agents or otherwise coordinate applications for other sources of leveraged funds, helping the applicant get these together early in the process can speed things along later. Those not filing tax returns should complete an Affidavit certifying that they are/were not legally required to do so.*
4. *Credit report: Pulling a credit report as a part of the initial intake/application process can quickly identify prospective homeowners who may qualify for leveraged funds from other programs such as PIP, USDA-RD, and conventional lenders. If a homeowner’s mortgage holder*

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regularly reports to the credit bureau, the credit report may be used to verify that mortgage payments are current.

5. Verification of Mortgage (could use Credit Report): Grantees should review the number of remaining payments to determine if the existing mortgage is fully amortizing or a balloon loan. If there is a balloon, it's particularly important that the applicant understand the policy on subordination. If the existing mortgage is sub-prime or predatory, some grantees may seek to help the owner refinance into a more reasonable loan before proceeding with the rehabilitation project.
6. Verification of Paid Property Taxes
7. Proof of homeowner's insurance (look for other insured parties)
8. Recorded Warranty Deed or Land Contract (or prior deeds tracing owner's interest back to a recorded Warranty Deed) or Title Insurance: MSHDA expects grantees to trace the current owner's title back to a recorded warranty deed, and any land contracts must be recorded. If the ownership of the property cannot be clearly traced to a warranty deed, the grantee should obtain a title insurance policy covering its lien on the property.
9. Land Contract Vendor Acknowledgement/Consent (if applicable)
10. Lead Based Paint Statement (include Renovate Right pamphlet for rehabilitation of homes built before 1978).
11. Pre-Evaluation Disclosure of Lead Based Paint
12. *Applicant receipt of Fair Housing: It's Your Right pamphlet*
13. *PIP Program Disclosure*
14. *Eligibility Summary Worksheet and Analysis of Payment Ability: Many program administrators use a summary sheet indicating the applicant's income, debts, amount of an affordable monthly payment, and the accompanying projection of mortgage affordability. For programs that integrate PIP loans and other amortizing home improvement loans with grant funded projects, this can be especially helpful.*

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STEP 2: Property Evaluation and Construction Determination. Once an applicant has been determined eligible, the grantee needs to complete a variety of inspections to evaluate the scope of necessary development activity and estimate project costs. Together this information allows an analysis of the specific project's feasibility. Some projects are simply not feasible and may result in denial of an application even if the owner meets other eligibility requirements.

1. Environmental Checklist
2. Historical Clearance – SHPO (if applicable)
3. Flood Plain Map or documentation that area is not mapped
4. Noise Attenuation (if applicable)
5. Initial Inspection Report (minimum of HQS)
6. Assessor's Card (to verify age and value of property): The Assessor's record on the property provide official documentation of a home's building date for purposes of determining if Lead Based Paint compliance and SHPO reviews are necessary. Additionally, the Assessing record should show that the property is 100% Homesteaded—further documenting owner-occupancy—and provides the State Equalized Value (SEV) needed to complete the proforma in OPAL.
7. Work Specifications
8. Cost Estimates
9. Lead Property Exemption form (if applicable)
10. Lead Risk Assessment (if applicable)
11. Revised Rehabilitation Specifications and Cost Estimates
12. Homeowner approval of specifications

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STEP 3: Bidding and Contractor Selection. After determining a project's initial feasibility, a contractor can be identified, and actual costs of the project can be determined.

1. Prepared Bid Package
2. List of Contractors invited to Bid
3. Copies of bids received
4. Bid Comparison Summary
5. Record of Bid Selection
6. Verification that selected contractor(s) is not on debarred list (<http://epls.arnet.gov>)
(Print the results of the search from the above website.)
7. Notice to unsuccessful bidders
8. After Rehab Value form (if applicable): Only required when prompted by the proforma.
9. **The Setup Proforma should be submitted at this point. The loan closing with the homeowner should not take place until the project Setup is approved by MSHDA.**

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STEP 4: Closing and Lien Documents. After the scope of rehab and its specific cost based on a selected bid is known, a closing can be scheduled with the homeowner. See Step 4A for additional requirements for Refinancing and Closing Cost Assistance required documentation.

1. *Re-verification of paid property taxes: Depending on how much time has elapsed from the initial verification, program administrators often double-check that any property taxes due since the initial verification have been paid prior to closing.*
2. Mortgage (suggest future advance mortgage): A “Future Advance Mortgage” is one that provides a lien for up to a specified principal amount when the exact size of the final loan may not be known at the closing. For example, most home equity lines of credit are, in fact, mortgage loans secured by a Future Advance Mortgage. Because change orders often affect the size of the loan, homeowner rehabilitation programs should consider using Future Advance Mortgages to avoid having to record amended mortgages. There are specific legal requirements for the form of Future Advance Mortgages—including specific language that must be included within the document and the requirement that the maximum principal amount of the loan be specified within the document—that can be found at MCL 565.901-565.906. Grantees should consult their own legal counsel with specific questions about modifying mortgage documents.
3. Note(s)
4. *Program Agreement: It may be useful to execute a program agreement, in addition to the loan documents, outlining the grantee’s and the homeowner’s roles and responsibilities within the program. In some ways it can be most important to clearly outline those things the program is NOT doing such as guaranteeing the work, entering into the construction contract, selecting the contractor, etc. and making it clear that the homeowner must take responsibility for signing off on payments, notifying the grantee of problems, settling disputes with the contractor, etc.*
5. 3 Day Right to Cancel
6. Truth in Lending Disclosure Statement
7. Insurance Change Agreement: The insurance change agreement is used to add the grantee as an additional insured party on the owner’s hazard insurance to ensure repayment of the lien in the event of a catastrophic loss.
8. Documentation of Leveraged Funds

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STEP 4A: Refinancing and Closing Cost Assistance. Grantees may provide up to \$3,500 in closing costs and related assistance to homeowner rehabilitation recipients to help them refinance unsustainable first mortgages. See PB #10, Attachment F for detailed information.

1. Copy of the signed Loan Application to the new 1st mortgage lender.
2. Good Faith Estimate provided by new 1st mortgage lender.
3. Settlement Statement from closing of new 1st mortgage.
4. Copy of check(s) disbursed to pay off any open collections paid with CDBG funds.
5. LINKS to Homeownership counseling certification.
6. If requesting exception to any of the above, submit approval of written request.

NOTE: The amount of refinancing and closing cost assistance will be included in the Mortgage and the Mortgage Note identified in Step 4 above.

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STEP 5: Construction Management. At or after the closing, the homeowner should execute the rehab contract, and rehab begins.

7. Contractor(s) License
8. Contractor(s) Insurance
9. Contractor(s) Lead Training/Certification
10. Executed Contract(s) between the Contractor(s) and Homeowner, to include
 - a. Lead Work Contractor attachment
 - b. Equal Opportunity Clause (Executive Order 11246)
11. Notice of Commencement
12. Notice(s) to Proceed
13. Change Order(s)
14. Copy of Inspection Reports (by local building official if permit required)
15. Interim Payment Requests/Authorizations and Inspection Requests (could be one, two, or three separate forms; could be invoiced by contractor or placed on standard form; requires signature by contractor, homeowner, and administrator prior to payment)
16. Sworn Statements (could be incorporated into payment request form from contractor)
17. Partial and Final Unconditional Lien Waivers
18. Lead Clearance Test Results (if applicable)
19. Lead Based Paint Inspection/Compliance Certification Form
20. Final Inspection Report by Administrator
21. Final Approval by Homeowner
22. Final Payment Request/Authorization (again, could be a combined or separate forms, but should clearly show signature of contractor, approval by homeowner, and approval by program staff)
23. Itemized summary listing of all project costs including construction costs, LBP testing costs, LBP remediation activities, and soft costs (if any),
- 24. One or more Revised Proformas may be required during the course of the project as change orders modify the cost of the project. Once all funds have been drawn, the Final Proforma should be submitted.**

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STEP 6: Project Closeout and Ongoing Monitoring.

1. Payment Schedule and Record
2. *Client Satisfaction Survey: While there is no formal requirement for ongoing interaction between the grantee and the homebuyer, MSHDA recommends that grantees survey participants on their experience with the program.*
3. *Pre-Warranty Expiration Follow-up for warranty repairs: It may be a good idea to follow-up six months before the warranty on workmanship and materials expires. While the contractor provides the warranty, buyers will often initially come to the grantee with problems, and it's best to be proactive about identifying problems before the warranty runs out.*

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**REQUIRED DOCUMENT SUBMISSIONS
HOMEOWNER REHABILITATION**

INSTRUCTIONS: The following documents must be submitted to your Community Development Specialist at various stages of a Homeowner Rehabilitation project. Grantees should be aware that the list of required document submissions is NOT a comprehensive list of required documents for your local project file. For input on the broader list of documentation you should maintain, please refer to Comprehensive Required Documents list for Homeowner Rehabilitation projects.

Additionally, please be aware that MSHDA may randomly select projects for file reviews and request that you submit copies of all documents in your project file for review. For cause, your CD Specialist may also require that you submit other documents during the course of a project to document compliance with MSHDA's requirements.

REQUIRED FOR PROJECT SETUP/COMMITMENT: All projects should be set up and approved by your CD Specialist prior to closing the Homeowner Rehabilitation loan or signing a contract for rehabilitation. The following documents should be submitted concurrently with your Setup Proforma in OPAL.

- Income Verification Package: If the household income is more than 70% of the Area Median Income or less than \$5,000 from the 80% AMI limit, the Income Verification Package must be submitted. Also, if the household income includes income from self-employment, the Income Verification Package must be submitted. Otherwise, the Income Verification Package need not be submitted but should be retained in the local project file
 - 1.2a Annual Household Income Worksheet
 - 1.2b Third Party Verification Monitoring
 - 1.2c Family Composition
 - 1.2e Declaration of Section 214 Status
 - 1.2f Checklist(s)
 - 1.2g Verifications

REQUIRED FOR PROJECT COMPLETION: If the project requires a mortgage loan between MSHDA and the Homeowner (i.e. the project is NOT from a County Allocation grant), the following documents must be submitted before a project can be closed out or completed in OPAL.

- 4.2 Homeowner Rehabilitation Mortgage
- 4.3 Homeowner Rehabilitation Mortgage Note